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IN THE UNITED STATES DISTRICT COURT  
IN AND FOR THE DISTRICT OF DELAWARE  
PRINCETON DIGITAL IMAGE CORPORATION, : CIVIL ACTION  
Plaintiff, :  
v :  
ALTICOR GLOBAL HOLDINGS, INC., QUIXTAR.COM, :  
INC., ALTICOR, INC., and AMWAY CORP., :  
Defendants. : NO. 13-512-LPS  
-----  
PRINCETON DIGITAL IMAGE CORPORATION, : CIVIL ACTION  
Plaintiff, :  
v :  
FTD GROUP, INC., and UNITED ONLINE, INC., :  
Defendants. : NO. 13-518-LPS

- - -  
Wilmington, Delaware  
Monday, March 31, 2014  
*Oral Argument Hearing - Motions*

- - -  
BEFORE: HONORABLE **LEONARD P. STARK**, U.S.D.C.J.

APPEARANCES: - - -

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and

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P R O C E E D I N G S

(REPORTER'S NOTE: Oral argument hearing was held in open court, beginning at 9:32 a.m.)

THE COURT: Good morning, everyone.

(The attorneys respond, "Good morning, Your Honor.")

THE COURT: Let me have you put your appearances on the record, please.

MR. MOULTRIE: Good morning, Your Honor.

THE COURT: Good morning.

MR. MOULTRIE: Samuel Moultrie of O'Kelly Ernst & Bielli on behalf of Princeton Digital Image Corporation; and with me is Michael K. Botts out of our Washington, D.C. office.

THE COURT: Welcome.

MR. BOTTS: (Nodding "hello.")

MS. FARNAN: Good morning, Your Honor. Kelly Farnan from Richards Layton & Finger on behalf of the defendant United Online. And I have with me as co-counsel, Jean-Paul Ciardullo from Foley & Lardner, and he will be making the presentation today.

THE COURT: Thank you. Welcome.

MR. WILLIAMS: Good morning, Your Honor.

THE COURT: Good morning.

1 MR. WILLIAMS: Greg Williams from Fox  
2 Rothschild. With me is my co-counsel, Laura Beth Miller  
3 from Brinks Gilson in Chicago; and we're here on behalf of  
4 the Alticor defendants.

5 THE COURT: Okay. Thank you very much. Welcome  
6 as well.

7 So we have really two cases here with multiple  
8 motions. Have you all talked about how you might like to  
9 break up the time?

10 MR. WILLIAMS: Yes, Your Honor. We do have a  
11 proposal. We would like to start with the presentation of  
12 the motion to transfer by the Alticor defendants, followed  
13 by the argument on the motion for leave to amend claim,  
14 followed by the motions of the other defendants.

15 THE COURT: Okay. That's agreeable to you,  
16 Mr. Botts?

17 MR. BOTTTS: Yes, Your Honor.

18 THE COURT: Agreeable to the other defendant?

19 MR. CIARDULLO: Yes, Your Honor.

20 MS. FARNAN: Yes, Your Honor.

21 THE COURT: All right. We'll do it that way.  
22 Thank you.

23 Good morning.

24 MS. MILLER: Good morning, Your Honor. Laura  
25 Beth Miller on behalf of the Alticor defendants, as

1 Mr. Williams has pointed out.

2 I'd like to address first our motion to transfer  
3 which for purposes of the motion, I will assume all the  
4 proposed defendants as well as the defendants that we have  
5 agreed should be in the case are parties. Obviously, if the  
6 motion for leave to amend is denied, that would present even  
7 a stronger case for transfer.

8 THE COURT: All right. So remind me, who is in  
9 the case? Who are you agreeing to be in the case, and who  
10 is at issue in the later motion?

11 MS. MILLER: Yes, Your Honor. The party that  
12 has answered so far is Alticor Inc. Alticor Inc. is a  
13 Michigan corporation with headquarters in Ada, Michigan  
14 which is in the Western District of Michigan.

15 The proposed party Quixtar Inc. is a party that  
16 has been identified in the motion to amend, and we do not  
17 dispute that they would be a proper party. Quixtar Inc. is  
18 a Virginia corporation. It's out now, actually been renamed  
19 to Amway Corp. It's headquarters is also Ada, Michigan.

20 The party that is the subject of the motion to  
21 amend that is in dispute is Amway International Inc. It's  
22 primarily a holding company. It is incorporated in Delaware.  
23 But, again, its headquarters and operations are in Ada,  
24 Michigan.

25 So for all of the defendants -- and I believe,

1 counsel, you would agree that is all the proposed defendants  
2 at this point?

3 MR. BOTTS: I'm sorry?

4 THE COURT: Do you agree to that layout of the  
5 parties at issue with respect to this motion?

6 MR. BOTTS: Yes, Your Honor. I believe it is  
7 stated correctly.

8 THE COURT: Thank you.

9 MS. MILLER: With respect to all proposed  
10 and named defendants, they all are headquarters in Ada,  
11 Michigan; and they have been for the entire portion of time  
12 that is at issue here.

13 I think what should be noted that is unique  
14 about this case is that the patent at issue here expired in  
15 December 2007. So the operative facts at issue based on  
16 the filing date of the complaint are the period of alleged  
17 infringement between April 2007 and December 2007. For that  
18 entire period of time, and since, and even before, but for  
19 the operative period of time, all of the defendants have  
20 been headquartered in Ada, Michigan.

21 During the operative period of time, plaintiff  
22 did not exist. Plaintiff did not acquire the patent until  
23 after the patent expired. Plaintiff incorporated in January  
24 2010, two years after the patent expired. It incorporated  
25 in Texas. Its website indicates that it is an acquisition

1 and licensing entity headquartered in Texas. And in January  
2 2010, it acquired this patent. It then waited another three  
3 years to file the lawsuit against the proposed named  
4 defendants.

5 So for purposes of the motion to transfer, we  
6 think it is particularly important to note that the plaintiff  
7 itself is not incorporated here, it is not headquartered here,  
8 and it is an entity that came into existence after the patent  
9 expired in order to enforce patent rights that it believes it  
10 has in the patent. Obviously, it would expect or I think it's  
11 reasonable for it to expect that it would have to do that on a  
12 nationwide basis.

13 The operative facts in this case relate to --  
14 and this is a nontechnical description of what we understand  
15 the patent to be directed to -- encoding of images in a  
16 particular JPEG format. The accused and proposed website  
17 that allegedly have these encoded images are websites that  
18 were designed, developed, operated, maintained in Ada,  
19 Michigan during the operative period of time.

20 Now, some of those websites no longer exist, some  
21 have changed, as you can expect, in dramatic ways since 2007.  
22 But during the entire period of time, they were maintained in  
23 Michigan.

24 The final -- well, not the final but another  
25 important factor on the motion to transfer is the list of

1 witnesses that we have been able to identify or potential  
2 witnesses that we've been able to identify so far. And  
3 those are attached to Mr. Cole's declaration, Docket No.  
4 23. Those, witnesses again, there is a number of witnesses  
5 that are located in Ada, Michigan, some of them current or  
6 former employees of an Alticor defendant. Some of them,  
7 Michigan-based companies who consulted with Quixtar in  
8 designing and developing the website in the mid 90s or late  
9 90s.

10 THE COURT: Is there any evidence that any of  
11 them would be unwilling to come to Delaware for trial, if  
12 necessary?

13 MS. MILLER: We have not contacted them to know.  
14 Being former employees, we wouldn't have control. So I  
15 can't say on the record whether or not they would come or  
16 not.

17 In this case, there really has been no  
18 identification of ties to this jurisdiction. I know you are  
19 well familiar with the *Intellectual Ventures* case. We think  
20 that case is particularly distinguishable from this case.  
21 In that case, all of the defendants were incorporated in  
22 Delaware. Plaintiff was incorporated in Delaware.

23 Those are exactly the opposite facts we have here.  
24 Plaintiff is not incorporated in Delaware, it's not doing  
25 business in Delaware, and all but one of the defendants is



1 incorporated elsewhere, and all of the defendants are  
2 operating elsewhere.

3 I think *Intellectual Ventures*, which is probably  
4 the most significant case that plaintiff has cited, is also  
5 different because in this case, there is not ongoing alleged  
6 infringement. This is activities that happened many years ago.  
7 So the interest that this jurisdiction might have in an ongoing  
8 dispute with ongoing activities is again distinguishable  
9 from other cases where transfer may have been denied.

10 I think the cases that are much more akin to the  
11 cases in our case are the *Linex Technologies* case where in  
12 that case, even though plaintiff was a Delaware corporation,  
13 the Court determined that it would be appropriate to transfer  
14 because the plaintiff was not incorporated in Delaware, just  
15 like our case here, and the infringement claims were based  
16 elsewhere. In that case, the Court recognized that  
17 infringement claims have "even deeper roots in the forum  
18 where the accused products were developed."

19 I think the *Linex* case sheds light on why this  
20 case should be transferred to Michigan because like that  
21 case, the accused activities are centered in Ada, Michigan.

22 The *Mekiki* case, *Mekiki v Facebook* -- and to the  
23 extent I'm mispronouncing that, I apologize. That is again  
24 another case where the plaintiff's forum choice was given  
25 less deference because the facts occurred outside of this

1 jurisdiction.

2 Plaintiff has said, notwithstanding the fact  
3 that it is not incorporated here, that it is not doing  
4 business here and that all of the defendants' activities  
5 occurred elsewhere. It said that, well, this Court should  
6 keep it because there are other co-pending cases. That is  
7 true, there are other co-pending cases here. However, there  
8 are also co-pending cases in New York. So this is not the  
9 only jurisdiction that is addressing this patent.

10 THE COURT: As I understand it, there was  
11 something like 50-related cases filed here originally and  
12 something on the order of 30 of them are still pending in  
13 front of me. Do you agree with that? What is the status?  
14 And how many are there in New York?

15 MS. MILLER: To answer all of those questions, I  
16 agree that count is probably pretty close. A number have  
17 settled. From what we have looked at, there has been no  
18 real substantive action on the cases here in Delaware. The  
19 parties seem to be settling or maybe have not got to the  
20 point of substantive action yet. I can't characterize all  
21 of them. New York, on the other hand, is a case where there  
22 is substantive action still pending.

23 THE COURT: Apparently, a Markman hearing was  
24 scheduled. Did it occur?

25 MS. MILLER: I would let counsel address that

1 because he may have had more than one patent involved with  
2 that Markman so I'm not quite sure.

3 THE COURT: But from your perspective, you even  
4 said in passing earlier plaintiff should have expected to  
5 have to litigate this patent nationally. What did you mean  
6 by that? And in that regard, how important is whatever is  
7 going on in New York?

8 MS. MILLER: So what I meant by that, Your  
9 Honor, is the purpose of this plaintiff as opposed to the  
10 plaintiff in maybe some of the other cases, this plaintiff  
11 formed its existence after the patent was expired for the  
12 sole purpose of litigating the patent, and yet it choose to  
13 incorporate and make its headquarters outside of Delaware.

14 If Delaware were truly an important venue for it  
15 and it wanted the Delaware presence, it could have chose to  
16 incorporate here but it did not. Instead, it has accused,  
17 as the docket sheet shows, companies throughout the country  
18 of infringement. Prior to filing the lawsuit against our  
19 client in filing in Delaware, it was already litigating  
20 cases in New York. Those cases in fact had been in Texas  
21 and were transferred out to New York.

22 So the expectation of a licensing acquisition  
23 company, unlike an operating company which is what the  
24 Alticor defendants are, the expectation that they have to  
25 address license and acquire those patents on a national

1 basis, it is reasonable to expect that it may have to  
2 litigate those outside of one jurisdiction.

3 On the flip side, the Alticor defendants,  
4 Quixtar and Alticor, both being operating entities, are  
5 centered and based in Michigan. They have been there over  
6 50 years. They have a huge manufacturing facility, and  
7 they have a true local presence in the Grand Rapids area.

8 The *Semcon Technologies* case I think is  
9 informative in this case because in that case as well there  
10 were co-pending cases in this jurisdiction and yet the Court  
11 said that factor, while it may weigh against transfer, was  
12 not that strong of a factor because the infringing  
13 activities occurred outside of Delaware.

14 Again, like the *Semcon* case, this case is  
15 particular in the nature of the defendant in the fact that  
16 the operative facts occurred in Michigan. They occurred  
17 some time ago. So the reasonableness of keeping it here  
18 is not as strong as transferring it to Michigan where the  
19 Alticor defendants are based, where they intend to defend  
20 against the action. And the fact that the Delaware cases  
21 here have not progressed that far, for whatever reasons  
22 between the parties.

23 The other argument that plaintiff makes about  
24 its reasonable and legitimate reasons for keeping the case  
25 here was that it thought that Delaware was proximate and

1 convenient to the parties.

2 I think the facts would tend to show otherwise.  
3 Obviously, the Western District of Michigan is the District  
4 in which Ada, Michigan is located, so obviously that would  
5 be much more practical and convenient for the defendants as  
6 well as the other former employees and the business  
7 consultants located in Michigan. Likewise for plaintiff,  
8 being a Texas company, being a Texas incorporated entity,  
9 Delaware is not necessarily more convenient to it than  
10 Michigan.

11 I don't think any of the parties dispute that  
12 personal jurisdiction would be appropriate in either  
13 jurisdiction.

14 The remainder of the factors are really public  
15 interest factors, largely neutral. But to the extent they  
16 favor one side or the other, they favor Michigan in this  
17 case, particularly given the fact that they are operating  
18 entities the length of time from which the case is.

19 THE COURT: What about the overall interest of  
20 the federal judicial system? You say there are related  
21 cases in the Southern District of New York. There certainly  
22 will be plenty in front of me no matter what. Should I  
23 really be interested in burdening a third District Court  
24 with this case?

25 MS. MILLER: I think, Your Honor -- and I

1 realize I may stray beyond the facts of the brief, but to  
2 get a sense of the understanding of the client I think you  
3 should. The case is directed to what defendants' activities  
4 were, are being accused of, or what they engaged in in 2007  
5 in the way they encoded these JPEG images.

6 The patent itself recognizes that the industry  
7 standard was prior art and known. Therefore, the plaintiff's  
8 claims must necessarily be directed to the specific way our  
9 clients encoded, and that is different from possibly other  
10 defendants.

11 In addition, we have strong affirmative defenses  
12 related to laches. We also have other -- I'm trying to  
13 think of the claim -- other affirmative defenses, I'm sorry,  
14 that would be specific to our client that I think may or may  
15 not apply to the other defendants. Laches would be one. We  
16 also have license defenses. I hesitate to get into the  
17 details on that argument some because they may be confidential.  
18 But needless to say, they are defendant specific affirmative  
19 defenses.

20 So I think it's reasonable to bring the case to  
21 the jurisdiction where the courts are very familiar with  
22 the Alticor defendant, how they operate, what their business  
23 involves. Alticor as you may know it is Amway. It's a multi-  
24 level marketing business. So the way it sells products is  
25 extremely different from most of the named defendants, which I

1 think makes it a unique entity which will require ultimately  
2 it be tried separately from the other defendants the way it  
3 uses its website. It's very different from, for example, an  
4 Amazon or Facebook.

5 So, again, I think there is reasons that are  
6 specific to the client for why it should have its business  
7 and its accused activities should happen in Michigan as  
8 opposed to some of the other retail establishments that are  
9 pending in your jurisdiction.

10 THE COURT: I think you laid that all out, and  
11 we will give you a chance for rebuttal on that. Let me give  
12 the plaintiff a chance on that first.

13 MS. MILLER: Thank you, Your Honor.

14 THE COURT: Good morning.

15 MR. BOTTS: Good morning, Your Honor.

16 The motion to transfer, first of all, since  
17 there is a burden, undue burden on Alticor, Amway because  
18 they're in Michigan. However, very little of this case  
19 involves anything in Michigan.

20 The case is about images posted on a website,  
21 whether they were optimized under the patent. The images  
22 themselves are the evidence. It is quite likely that most  
23 of the evidence will just be the electronic files. The  
24 metadata therein should reveal whether they were optimized  
25 under the patent.

1           There is no need to -- the organization of the  
2     website, how it was operated, how it was maintained, the  
3     individuals doing that, although Alticor may decide to raise  
4     that, it's our position that that is relatively irrelevant  
5     to the case. Why they did it or who did it, it's really  
6     going to come down to the images, and that is going to be  
7     electronic whether it's put on a disk in Michigan and sent  
8     to counsel or whether it is put on disk here. It makes no  
9     difference.

10           The arguments about the plaintiff, when it was  
11     incorporated, where it was incorporated and why, I don't  
12     believe that is relevant to this issue. There shouldn't be  
13     a motion to transfer based on the fact that the plaintiff  
14     is suing a Delaware corporation in Delaware.

15           The status of the cases in New York was raised.  
16     I recently appeared on that case. There are two defendants  
17     there: Hewlett-Packard and Fujifilm. Those lawsuits are  
18     substantially different than the present because they are  
19     based on those two companies' use of the patent in encoding  
20     images on cameras and scanners. This case is about images  
21     appearing on a website.

22           I believe the only cases in this District  
23     involve website issues and are against Delaware defendants,  
24     which is why we're here. Some corporations are incorporated  
25     in Delaware.



1 THE COURT: You are agree there are no Delaware  
2 defendants in this case we're talking about right now, the  
3 Alticor case, at the moment?

4 MR. BOTTS: At the moment.

5 THE COURT: You are seeking it today.

6 MR. BOTTS: We had one initially. We tracked it  
7 down. We believe it to be properly the Amway International  
8 defendant now, but that tracks from one of the original  
9 named defendants.

10 THE COURT: What is the status of the New York  
11 case?

12 MR. BOTTS: It's gone through Markman. That was  
13 about Thanksgiving. Fact discovery has concluded, and  
14 expert discovery is about to begin.

15 THE COURT: Is it the same patent in suit?

16 MR. BOTTS: There are two patents, this one and  
17 another one involving video images.

18 THE COURT: But the patent in my Alticor case is  
19 also involved in the Southern District of New York case?

20 MR. BOTTS: Correct.

21 THE COURT: So what about, taking a step out,  
22 the general idea that your client should have anticipated  
23 and likely did anticipate that its enforcement strategy was  
24 going to take it to multiple federal courts across the country?

25 MR. BOTTS: Well, it could have. There are

1     probably thousands of defendants that haven't been sued.  
2     Now, I'm not involved in every case even in this court, but  
3     my understanding is that we're in this court because so many  
4     corporations are incorporated in Delaware and this is a  
5     proper forum for that, for those cases.

6             The lawsuits originally filed in Texas, I wasn't  
7     involved in the filing of those. My understanding is they  
8     were transferred because none of those cases, none of those  
9     corporations were incorporated in Texas and didn't have  
10    substantial contacts there. That is why they were transferred  
11    to New York and I believe one to the Southern District of  
12    California, or Central District.

13            THE COURT: So your client's already in more  
14    than just Delaware and New York.

15            MR. BOTTS: The others have settled. The only  
16    ones are in New York.

17            THE COURT: They were transferred to California,  
18    but then they settled.

19            MR. BOTTS: I wasn't involved in that. I know  
20    that there was -- I don't know if it was even docketed in  
21    California. There were arguments on that. As far as I  
22    know, the only live ones were in New York and here, and  
23    those again involved entirely different technology. It's  
24    the cameras with the processing boards, the processing  
25    chips, and the firmware and the hardware that encoded the

1 JPEG images and stored it on the cameras and on the  
2 scanners.

3 Those issues aren't involved in this case at  
4 all. This case is simply the images posted on the websites  
5 using the patented method of optimizing the JPEG images so  
6 that they resolve quickly. Well, they come up quickly and  
7 they can be changed quickly. So it's completely different  
8 technology. Well, applied to different technologies, I  
9 should say. It's the same patent applied to different  
10 technologies.

11 THE COURT: Is there anything else?

12 MR. BOTTS: I just would go back to a couple of  
13 points. The point was made about local interest. As we  
14 briefed, the patents don't contain a local interest factor.  
15 Amway's websites were used nationally. The use of the  
16 patent was nationally on the images just about the websites.

17 And, again, the evidence in this case is going  
18 to be primarily electronic. The images used in that in 2007  
19 could be downloaded on to a disk, analyzed by both sides  
20 experts and argued. Financial data typically is produced  
21 electronically. Other than that, we're not going after a  
22 machine producing widgets or the widgets themselves, just  
23 these images that are electronic data.

24 THE COURT: I think you started by saying you  
25 don't think it's relevant where your client is incorporated

1 or headquartered and factors such as that about your client.  
2 But doesn't that factor into how much deference the Court  
3 should give to your client's choice of Delaware as a forum?

4 MR. BOTTS: I believe at that time, it was  
5 anticipated in the cases would be proper in Texas as far as  
6 the hardware cases, and that being the cameras and scanners.  
7 The image cases, that it's properly brought here in Delaware  
8 against Delaware corporations, I believe. We would have a  
9 hard time bringing them in Texas just for the fact that they  
10 had images on their websites.

11 THE COURT: But do you agree that it is relevant  
12 where your client is incorporated and headquartered in  
13 terms of deciding how much deference to give to your choice  
14 of forum?

15 MR. BOTTS: It is relevant but a small factor.  
16 I apologize for saying irrelevant.

17 THE COURT: I think the strongest reason for  
18 keeping your case here is that I do have whatever, 30 other  
19 related cases, but you're saying there may be more suits,  
20 you said maybe a thousand defendants out there potentially.  
21 Can I have any confidence that I'm really accomplishing any  
22 reduction of burden on the overall judiciary if I keep this  
23 one case here?

24 MR. BOTTS: That was in response to the question  
25 about whether they anticipated going nationally. What I

1     meant to convey is that there were potential thousands of  
2     cases. Every website virtually in 2007 was using this JPEG  
3     optimization, and those cases could have been filed all  
4     over. It would have involved tracking down thousands of  
5     websites.

6             Princeton Digital identified a number of them,  
7     approximately 50 that were filed here, including these  
8     cases, because they were, as I understand it, again I'm not  
9     involved in all of them, the Delaware-based corporations.  
10    But there are no more suits to be filed in time. They have  
11    to be filed within the six-year window in order to get the  
12    damages. We're leaving thousands of defendants out there  
13    that we just couldn't get to.

14            THE COURT: So you are representing that  
15    Princeton Digital is not going to be bringing any more of  
16    these website-based patent litigation lawsuits based on the  
17    patent in suit in front of me in any other court?

18            MR. BOTTS: No, I don't believe they can. It's  
19    six years since 2007, it has expired, and I don't think it's  
20    even possible at this point.

21            THE COURT: Is there anything else?

22            MR. BOTTS: Nothing, Your Honor.

23            THE COURT: Okay. Thank you. Let me hear  
24    rebuttal.

25            MS. MILLER: I'd like to make three quick

1 points, Your Honor. On the issue of the dispute being  
2 images posted on the website, the posting of that activity  
3 occurs in Ada, Michigan.

4 On the issue of the defendants being Delaware  
5 entities, two of the defendants, the operating entities for  
6 which we agree are proper parties are operating entities  
7 that are not Delaware corporations. As I explained, none  
8 of the defendants are headquartered here in Delaware. The  
9 operating companies are headquartered in Michigan. One is a  
10 Michigan corporation, one is a Virginia corporation.

11 Finally, on the burden of defendant. While it  
12 is still defendant's burden, I think we have met that. And  
13 also, as the Court has recognized in the *Mekiki* and the  
14 *Gielata* cases, that burden is lessened when plaintiff is not  
15 litigating in its home turf.

16 THE COURT: What about the representation that  
17 the discovery is likely to be very limited, pretty much to  
18 website images and metadata associated with it?

19 MS. MILLER: I don't know exactly plaintiff's  
20 plan, but I will take that representation it still requires  
21 gathering of the data, deposing the witnesses. Many of  
22 them are former employees, and all of that activity occurred  
23 in Michigan. It would be substantially. And, likewise,  
24 because it is code, we would expect that the code would be  
25 maintained in Michigan and reviewed in Michigan in any

1 event.

2 THE COURT: Right. But --

3 MS. MILLER: It's not a matter of putting it on  
4 a disk and sending it.

5 THE COURT: All of that routinely happens in  
6 other districts for cases that are ultimately tried here.  
7 Is there anything different about your situation?

8 MS. MILLER: Again, I think with respect to the  
9 data, no, other than the fact that it is located in Michigan.

10 With respect to the other affirmative defenses  
11 regarding our client, the location of the evidence, the  
12 location of the witnesses, and the location of the operative  
13 facts, all of those demonstrate that it would be much more  
14 convenient for our client to be litigating in Michigan.

15 THE COURT: Okay. Thank you.

16 MS. MILLER: Thank you.

17 THE COURT: I think by agreement we're moving on  
18 to the motion to amend in this case; is that correct?

19 MR. BOTTS: Yes, sir.

20 THE COURT: So we'll hear from plaintiff on that.

21 MR. BOTTS: I believe most of the facts were  
22 hashed out just a few minutes ago. Primarily when we filed  
23 originally, we thought we had the right people. We ran into  
24 essentially a corporate stew of names, and doing business  
25 as, and foreign corporations in a number of instances, and I

1 would cite Your Honor in particular to the briefing where  
2 we go through, it's a very confusing list of names and where  
3 we go.

4 Ultimately, I think we arrived at Amway  
5 International as the proper Delaware corporation, a  
6 continuance of the proper party who was a proper party and  
7 responsible for the images in 2007. That entity has been  
8 characterized by Alticor as a mere holding company. That  
9 information would be particularly known to Alticor and not  
10 to ourselves.

11 If there is an issue on whether it is a proper  
12 party on that basis, Princeton Digital would ask for reason-  
13 able limited discovery into Amway International's status,  
14 whether it's a holding company or whether it's an actual  
15 continuation of the active corporation that we believe it is.

16 THE COURT: If it is just a holding company, you  
17 agree it is not a proper party here?

18 MR. BOTTS: No, I don't know what their  
19 definition of a holding company is. They seem to think that  
20 it is fatal to the case. I don't know what the terms are,  
21 I don't know what it holds, what its present status is. I  
22 believe that it's the successor in liability -- one of the  
23 successors in liability to the infringement in 2007 based  
24 on just the paper trail that I can find in the corporate  
25 structure.



1                   THE COURT:   What kind of limited discovery would  
2   you be looking for?

3                   MR. BOTTS:   In the name changes, any agreements  
4   relating to the name changes, assignments of liability,  
5   stock transfers.   I don't know if there are any.   We found  
6   that these Amway corporations exchange names back and forth  
7   over several states frequently and confusingly, using the  
8   same name in multiple places, similar names as a doing  
9   business as in different places while it relates to another  
10   company with a similar name to other things.   It's very  
11   confusing.   So we need a nice, clean paper trail to establish  
12   what in fact Amway International is.

13                  THE COURT:   Is there anything else?

14                  MR. BOTTS:   Nothing, Your Honor.

15                  THE COURT:   All right.   Ms. Miller.

16                  MS. MILLER:   Thank you, Your Honor.   On the  
17   motion to amend, there is two aspects of it to which we  
18   have objected.   One is naming Amway International, Inc., and  
19   the other is naming the Alticor.com website, both of which  
20   because we feel it has just come too late given the fact  
21   that this case in particular is about three or five months  
22   worth of damages.

23                         On the issue of naming Amway International Inc.,  
24   we feel that it is unnecessary at this point because Alticor  
25   Inc., the parent of Amway International, is an operating

1 company. It has answered the case. It will provide the  
2 discovery that is necessary as plaintiff has described it  
3 today. There is no need to bring in Amway International  
4 which, as the declarations have indicated, it is primarily a  
5 holding company and which it is primarily responsible for  
6 international operation of Amway.

7 THE COURT: Primarily a holding company but not  
8 entirely a holding company?

9 MS. MILLER: That is correct, Your Honor.

10 This case involves U.S. activities. Quixtar  
11 is the U.S., or was in 2007, the U.S. operating arm for  
12 Alticor. So to the extent there are issues on what was  
13 being displayed or used to sell product in the United  
14 States, the real website is Quixtar.

15 The Amway website, the Alticor website, to the  
16 extent they are even brought into this case ultimately, I  
17 think we probably need just because as I said, there has  
18 been a number of website changes over the years. But there  
19 is no sales operation in 2007 on either of those websites.

20 The fact that the name changes have occurred  
21 over time, it is emblematic of the issue of waiting until  
22 the 11th hour to sue a company on activities that occurred  
23 many, many years ago. But plaintiff has yet to identify a  
24 compelling need to bring in Amway International. It's not  
25 the one that is in position of, or sole possession of any of

1 the information. And there is no allegation against Amway  
2 International that has not been asserted against Quixtar or  
3 Alticor Inc.

4 It is a very bare bones complaint. It merely  
5 says these entities are responsible for the website. It  
6 doesn't distinguish between websites. And for plaintiff's  
7 counsel to suggest they now need limited discovery after  
8 briefing has been completed, I think it is just another way  
9 to attempt to keep Amway International in the case in order  
10 to try to hold on to jurisdiction in the Delaware court.

11 THE COURT: Let's assume for the sake of argument  
12 that is what they're trying to do. Is there something wrong  
13 with that?

14 MS. MILLER: Well, I think it is unnecessary  
15 because as we explained in the motion to transfer, even if  
16 Amway International is in the case, the case should be  
17 transferred. There has been no demonstration on the record  
18 that Amway International has done any activity in Delaware  
19 relevant to any of the proposed or named websites.

20 THE COURT: What is the relationship between  
21 Alticor Inc. and Amway International Inc.?

22 MS. MILLER: So Alticor Inc. is a parent of  
23 Amway International. It is I believe a direct parent, but  
24 I can't -- it may be a grandparent, but it's the operating  
25 entity.

1 THE COURT: All right.

2 MS. MILLER: Then with respect to the Alticor  
3 Inc., naming of that website, we think it simply comes  
4 too late. The plaintiff, as you know, had years to file a  
5 lawsuit against the defendants. It named specifically  
6 Amway.com and Quixtar.com. It waited until I think it was  
7 the end of September to add the Alticor website. We're  
8 now talking about maybe two months worth of damages. The  
9 nominal value, if any, that that provides certainly is  
10 outweighed by the amount of discovery that would go into  
11 tracking down the data associated with the Alticor website  
12 for that two-month window of time.

13 THE COURT: Now, you say they added them, but  
14 the way they pled in the first or second complaint actually  
15 was not exhaustive and it did name a couple websites but it  
16 didn't say these are the only ones we're alleging infringe.

17 MS. MILLER: Your Honor, I would disagree with  
18 plaintiff's characterization of that in their brief. The  
19 *Twombly* standards would certainly require it to identify the  
20 JPEG images that are accused. To simply say encoded JPEG  
21 images are accused would not have been sufficient because the  
22 patent isn't directed to all JPEG encoded images.

23 In fact, it identified specific JPEG encoded  
24 images, those on the two websites. To now bring in JPEG  
25 encoded images on yet a third website or to assume that the

1 original pleading would have necessarily encompassed  
2 Alticor.com I think is contrary to the pleadings requirements  
3 of *Twombly*. So that is in fact why plaintiff had to amend  
4 the complaint to add Alticor.com.

5 THE COURT: With respect to adding Quixtar as  
6 a defendant, that portion of the motion to amend is not  
7 opposed.

8 MS. MILLER: We don't oppose that. That's  
9 correct.

10 THE COURT: I heard what you said about I think  
11 even the request for discovery is untimely in the sense you  
12 already briefed it, you put in a declaration. Would it be  
13 unduly prejudicial or in any way improper from your perspective  
14 or unwise even for me to say let's take very limited discovery,  
15 let's let plaintiff figure out who Amway International Inc. is.  
16 And because I think that may be a pertinent factor on the  
17 transfer analysis, let's revisit all of this a couple weeks or  
18 not too far down the road after they get the limited discovery  
19 they want and then reevaluate.

20 What would be your perspective on that?

21 MS. MILLER: My perspective would be that, again,  
22 it is an unnecessary activity. The discovery that they would  
23 need would be discovery happening about Alticor -- Amway  
24 International back in 2007. That is certainly information  
25 that has been out there and available for years. This is a

1 case that needs to be narrowed and its focus narrowed. We're  
2 talking about a very small window of time here on alleged  
3 infringement. And this is emblematic of what has been  
4 occurring in this case which is we're trying to narrow the  
5 focus down, and the plaintiff continues to try to broaden  
6 the focus in order to focus the defendants to settling for  
7 litigation costs. And we feel we have a license defense, a  
8 laches defense. Those are being ignored. Instead, the  
9 activities in court are propounding the cost of defense.

10 We have two operating companies that are assuming  
11 liability for the accused websites: Alticor Inc. and Quixtar  
12 Inc. There is no need to add Amway International, which  
13 really is focused outside of the U.S., for its activities. To  
14 bring them in just to compound discovery in such a narrowly  
15 focused case sends the wrong message and does burden the Court  
16 and our clients unnecessarily.

17 THE COURT: Okay.

18 MS. MILLER: Thank you.

19 THE COURT: Thank you very much. Is there any  
20 rebuttal on the amendment?

21 MR. BOTTS: Very quickly, Your Honor.

22 The Alticor.com addition again, as briefed, it  
23 is PDIC's position it is just adding specificity to the  
24 original allegation that the defendants' websites were the  
25 location of the JPEG locations. I don't believe there is an

1 obligation of the plaintiff to identify specific JPEG images  
2 on those websites at this point, in particular, since those  
3 images are not available to it. They would be exclusively  
4 in the record of the defendants.

5 I guess I would just stand on what Your Honor  
6 I'm sure knows well. In the case of amendment, it's leave  
7 freely granted. At this point, we're doing our best to  
8 identify the proper parties and move forward.

9 THE COURT: Is there any necessity though to  
10 adding Amway International Inc.?

11 MR. BOTTS: They may be the key operating  
12 function. They appear to be the one operating the websites  
13 at the time. I don't want to just toss them out.

14 THE COURT: Yes. On what basis do you say that  
15 that would be?

16 MR. BOTTS: By tracking down the names. Their  
17 name appeared on the websites. And then by tracking it  
18 through from Amway Corp. to Amway Corporation, Amway  
19 Corporation Delaware, all the way through, we get to Amway  
20 International, still a Delaware corporation.

21 THE COURT: Okay. Thank you. We're moving on  
22 to the other case then; is that correct?

23 MR. CIARDULLO: Yes.

24 THE COURT: All right.

25 MR. CIARDULLO: Your Honor, on procedure here,

1 I'm not sure what party you would like to hear from first.  
2 We filed a motion to dismiss, they filed a motion to amend.

3 THE COURT: Right. Have you conferred with  
4 Mr. Botts on that?

5 MR. CIARDULLO: Do you have any opinion on that?

6 MR. BOTTS: I have no preference.

7 THE COURT: We have heard from Mr. Botts, and  
8 we'll hear more from him, so why don't we give you a chance.

9 MR. CIARDULLO: Sure. Okay.

10 THE COURT: Good morning.

11 MR. CIARDULLO: My name is Jean-Paul Ciardullo  
12 on behalf of United Online.

13 So to quickly recap the procedure here. The  
14 original complaint that was filed was against United Online,  
15 my client, and FTD, and we filed a motion to dismiss. Both  
16 defendants did. They amended their complaint. FTD has  
17 responded, answered. United Online filed a motion to  
18 dismiss the first amended complaint; and in response to  
19 that motion to dismiss, plaintiff put in a motion to amend  
20 attaching a second amended complaint, which we then opposed,  
21 and they replied. So that's the sort of sequence of  
22 briefing.

23 Just a little bit of background on who the  
24 defendants are. My client United Online is a holding  
25 company that owns several different Internet companies.



1 That's their business. So that one of the companies they  
2 own, for example, is Classmates.com, which is a social  
3 networking website. They have another website that is  
4 called MyPoints that has some sort of point redemption  
5 services. And FTD is an on-line floral company, kind of  
6 like a 1-800-Flowers.

7 What happened is United Online had acquired FTD  
8 back in 2008 as a wholly owned subsidiary to add to this  
9 collection. And the current status actually is just this  
10 past November, United Online spun them back off. So now  
11 they're a separate company entirely.

12 So the 30,000 foot image we have of this case is  
13 why is United Online still involved in this? The acts of  
14 infringement that are alleged occurred before United Online.  
15 It's against FTD and the floral website.

16 The complaint, the second amended complaint  
17 states expressly that United Online is not being accused  
18 of infringement. This is all just based on the successor  
19 liability theory. But if we're in a situation where the  
20 acts of infringement they're alleged to occur happened  
21 before United Online even acquired them originally and now  
22 FTD is not even owned by United Online anymore, we're sort  
23 of left wondering why is it we're still even involved in  
24 this case. So that is sort of the 30,000 foot image.

25 Now, just as to some of the specific issues.

1 I'm actually somewhat new to the case, and I was doing some  
2 of my own research on legal standards here. So as I was  
3 saying, the theory that they're trying to keep United Online  
4 in the case with is successor liability. And there is a  
5 standard that is articulated for that. In fact, the factors  
6 were enumerated in one of your own cases. That is the  
7 *Marnavi* case, 900 F.Supp. 2nd 377, and it lists some of  
8 the factors by which you would find potentially a de facto  
9 merger, which is one of their successor liability theories,  
10 and that the factors that are listed there are that: One  
11 corporation transfers all its assets to another. Payments  
12 made in stock. And the transferee, the one who buys, in  
13 this case United Online, would agree to assume all the debts  
14 and liabilities.

15 Now, I want to take a step back from that because  
16 I think if you think about why you apply the successor  
17 liability theories, I don't think it makes sense in this case.  
18 And I'm not a corporate lawyer, I do patent law, so I had to  
19 read up on this a little bit.

20 But my understanding of successor liability is  
21 that you apply it when there is a company that owes debts or  
22 is liable for something and you can't reach them because  
23 they sort of vaporized, they vanished into another company,  
24 they created another company and sort of switched names and  
25 moved on, and it leaves creditors and other people who have

1 potential actions against them sort of without a remedy or  
2 without someone to sue.

3 That is expressly, and by the admission of the  
4 amended complaint, not the facts here. The second amended  
5 complaint that was put in states very clearly and acknowledges  
6 that FTD, when it was owned by United Online, was a separate  
7 subsidiary that continued to exist and operate on its own.  
8 These were not merged companies.

9 And something that I think is missing from the  
10 test that I just listed, and I think just because that case  
11 didn't really have to get into the issues too deeply, is  
12 that there is another key element to the de facto merger  
13 doctrine that is acknowledged by the Third Circuit and other  
14 courts around the country, which is that the company that  
15 is the transferor company has to cease to exist, which  
16 didn't happen here.

17 And I will cite some cases for you. There is a  
18 Third Circuit case, it's *Berg Chilling v Hull*, 435 F.3d 455.  
19 And it states: "The de facto merger doctrine recognizes  
20 that an essential characteristic of a merger is that one  
21 corporation survives while the other ceases to exist."

22 So, again, the amended complaint expressly says,  
23 it acknowledges that FTD was a wholly-owned subsidiary, a  
24 separate company, and Delaware is one of the foremost in  
25 recognizing the separate nature of a subsidiary.

1 Another Third Circuit case, *United States v*  
2 *General Battery Corp.*, 423 F.3d 294, says that: "De facto  
3 merger exception has four elements under the majority  
4 standard." And it enumerates the same ones that were in the  
5 case that I originally spoke about but also says, "one of  
6 the elements is that the seller corporation" -- in this case  
7 it was FTD -- "ceases its ordinary business, liquidates and  
8 dissolves as soon as legally and practicably possible." That  
9 did not happen here and that is not going outside the  
10 pleadings. That is what the pleadings state and acknowledged.

11 Another case for the same proposition, *Walsh, et*  
12 *al. v Newark Day Nursery Association*. This is 1985 Del.  
13 Super. LEXIS 1004, enumerates the same standard, that is a  
14 Delaware court. And we have some other case law here that  
15 elaborates on this.

16 There is a case, *Nature's Plus Nordic*. It's  
17 2013 U.S. Dist. LEXIS 159157. That's a Eastern District of  
18 New York case (2013). It says: "De facto merger occurs  
19 when the acquiring corporation has not purchased another  
20 corporation merely for purposes of holding it as a  
21 subsidiary but rather it is effectively merged with the  
22 acquired corporation.

23 Another case, *Best Foods*, 173 F.Supp. 2nd 729.  
24 This is a Western District of Michigan 2001 case. Same  
25 kind of facts, exact same facts as *United Online*, the FTD

1 acquisition. And this case, as the Supreme Court has  
2 emphasized, "The wholly owned subsidiary is assumed to be  
3 independent for liability purposes. The mere fact that the  
4 one company purchased the others in exchange for stock is  
5 insufficient standing alone to confer liability."

6 Another case, *Marenyi*, 1994 U.S. Dist. LEXIS  
7 14190. And this explained -- this is a Southern District of  
8 New York 1994 case, explaining that: Implied assumption of  
9 liability is more likely to be found when there is a real  
10 possibility that creditors of the seller had been left  
11 without a remedy as a result of a sale. Essentially where  
12 the predecessor corporation has not continued to exist as a  
13 viable entity.

14 The whole de facto merger doctrine is not  
15 something that is applied lightly or often. The case law  
16 clearly says that the Delaware courts use it only in very  
17 limited context. One of the cases that we cited in our  
18 briefing, the *AllState* case, 842 F.Supp. 2nd 1216, goes  
19 through sort of some other considerations you might look at,  
20 applying Delaware law, that would sort of hint at de facto  
21 merger, and it has to do again with were the creditors or  
22 stockholders injured by the failure to comply with the  
23 governing asset sale? Basically, was there some sort of  
24 an almost kind of a fraud that this company is escaping  
25 liability somehow or leaving creditors without a remedy?

1 And that is not the case here because there was a separate  
2 subsidiary that was operating on its own.

3 I just want to move past de facto merger because  
4 plaintiff also raised a second theory of successor liability,  
5 which is implied assumption of liabilities. The amended  
6 complaint doesn't allege any express assumption of liability  
7 and doesn't actually I think use the words "implied assumption  
8 of liability" either but they're saying that maybe the facts  
9 might suggest that. But we cited case law in the briefing,  
10 the *AllState* case, 842 F.Supp.2d 1216. And so what happened --  
11 let me back up.

12 Where the plaintiff is getting this from is that  
13 in our motion to dismiss, our original motion to dismiss, we  
14 included a press release about the United Online acquisition  
15 of FTD that references the fact that when United Online  
16 acquired FTD, they repaid some of its indebtedness. So the  
17 plaintiff sort of seized upon that and says: Wait a minute.  
18 Maybe that gives us the theory we can proceed here. That  
19 maybe they assume the liabilities.

20 So that was not something -- they could have  
21 researched that beforehand, before they filed the original  
22 complaint. It is not anything they looked into before they  
23 kind of seized upon it and tried to interject that as a  
24 theory.

25 But I understand that you have to assume the

1 facts pleaded in the complaint are true, but there is also  
2 case law that says that you don't have to invent facts that  
3 would make it plausible or sort of go beyond what the  
4 pleadings actually say. I don't think that there is enough  
5 in there to support an implied assumption of liability.

6 There is also case law importantly, it talks  
7 about the fact that just acquiring -- just voluntarily  
8 paying some of the debts of the acquired subsidiary does  
9 not create this blanket assumption of all liabilities. The  
10 *AllState* case I mentioned before is one of those.

11 There is another one within this Circuit,  
12 District of New Jersey case, 1994. The *Glynwed* case, 869  
13 F.Supp. 265. "Voluntarily applying certain debts is in no  
14 respect a wholesale assumption of liability of the  
15 corporation."

16 THE COURT: I think you are right on the law  
17 that just assuming some specified or certain debts and  
18 liabilities doesn't lead to as a legal matter that you have  
19 assumed all debt and liabilities, but the question I think  
20 for today is, is that a plausible reasonable inference from  
21 an allegation which I have to take as true? And I think as  
22 a factual matter you are not denying it anyway, that your  
23 client did assume some liabilities. So if I take anything  
24 in the light most favorable, draw every reasonable inference  
25 for the plaintiff, isn't it plausible that your client

1 actually assumed all liabilities?

2 MR. CIARDULLO: I think the other thing that is  
3 important here is that the assumption of liability doctrine  
4 shouldn't swallow the de facto merger doctrine, and there is  
5 case law to this effect. One of the four factors for de  
6 facto merger is the assumption of all liabilities.

7 Now, if you could just backdoor it and say,  
8 well, if you can show that they assumed all liability and  
9 there is successor liability, then you have effectively  
10 eviscerated the whole de facto merger. You don't have to  
11 get there. You have to show one element. There is case law  
12 that talks about that. Yes, it's that *Glynwed* case that I  
13 was just referencing from the District of New Jersey.

14 If this showing established implied assumption  
15 of all debts, plaintiffs would never need to show any more  
16 than this one element to establish corporate successor  
17 liability. That is not the law. And it cites the Fletcher  
18 Encyclopedia of Law Corporations at Section 7124 for that  
19 proposition.

20 So I think just on the law, it is not enough  
21 for them to sort of guess that maybe United Online might  
22 have assumed the liability. I think that more needs to be  
23 shown here, and that the allegations that are in the second  
24 amended complaint just don't get there.

25 Now, as to just a couple of other smaller points.



1 We also argued there had been undue delay here in the  
2 amendment. It sounds like there has been similar issues in  
3 this other case. The facts that would have been necessary  
4 to support these pleadings would have been known before the  
5 original complaint was filed. The only reason why the  
6 plaintiff thought to even allege these successor liability  
7 theories was because we had put in this press release and they  
8 kind of seized upon it.

9 THE COURT: That press release is dated in 2008?

10 MR. CIARDULLO: Yes. It's an August 26, 2008  
11 press release.

12 THE COURT: And being a press release, it was  
13 public; correct?

14 MR. CIARDULLO: Yes. It was put on the docket.  
15 It's Docket 18-3. There is also in the docket for reference  
16 at Docket No. 21-1, a copy of the press release announcing  
17 the spin-off of FTD.

18 So I guess, just in sum, we're sort of in a  
19 position here where we feel like United Online has been  
20 prejudiced by having to continually file these motions to  
21 dismiss and engage in all this briefing. The original  
22 complaint didn't say anything about successor liability. We  
23 put in this press release that they should have found, they  
24 should have researched, and they seized upon the de facto  
25 liability theory. We moved to dismiss again. And then

1       instead of directly responding, they filed a motion to amend  
2       and they have now a second amended complaint that says wait  
3       a minute. Let's add another successor liability theory.  
4       We'll throw in the implied assumption of liability.

5               So my client is sort of left jumping through  
6       hoops and filing motions to dismiss. All of this stuff  
7       should have been done beforehand.

8               THE COURT: They say you failed to really  
9       articulate any undue prejudice from all of that. Is there  
10      any prejudice to your client other than having to jump  
11      through all of those hoops and write the briefs and have  
12      them pay you and all that?

13              MR. CIARDULLO: Your Honor, I think that that  
14      sums it up. And that is grounds that has been recognized in  
15      cases, and I think we cited some of them, for dismissal with  
16      prejudice where there has been repeated, you know, failures  
17      to properly amend. You know, I think it is only bites at  
18      the apple. And I think that that is something that courts  
19      have recognized can be a basis for dismissal with prejudice.

20              Going back to where I began with the 30,000  
21      foot picture of this case. Why are we even here? We had  
22      acquired FTD as it was a separate subsidiary operating on  
23      its own and then we spun them off. The complaint, the  
24      second amended complaint expressly says it's not accusing  
25      United Online of infringement. And perhaps echoing a theory

1       that was mentioned earlier, I don't know whether this is  
2       perhaps just an effort to sort of strong-arm United Online  
3       in an attempt to force a settlement for the cost of  
4       litigation because we don't really see a legitimate reason  
5       why we would still be in the case.

6               THE COURT:   Okay.   Thank you.   We'll hear from  
7       the plaintiff.

8               MR. BOTTS:   The original complaint appeared  
9       to have the relevant parties.   We were challenged with  
10      superior knowledge of the defendant of their acquisition of  
11      FTD.   We looked into that and found there was at least an  
12      applied assumption of the liability and an apparent de facto  
13      merger of the two parties.   Even though the press release  
14      existed in 2008, there was no real reason to put it into the  
15      complaint because it didn't appear to be an issue.   Both  
16      parties appeared to be --

17              THE COURT:   Were you aware of it before filing  
18      suit?

19              MR. BOTTS:   I didn't file the suit.   I don't  
20      believe we were aware of it.

21              THE COURT:   In an exercise of reasonable  
22      diligence, shouldn't whoever prepared the complaint have  
23      been aware of that?

24              MR. BOTTS:   I take that back.   I think that  
25      might be the reason why United Online was named.   I'm just

1       guessing now because I wasn't the one who prepared the suit.

2               THE COURT:   Is that relevant to the Court's  
3       inquiry?

4               MR. BOTTS:   For due diligence?  No, because I  
5       don't -- again, both parties appear to be proper defendants  
6       just right from the beginning without having to defend as a  
7       de facto merger.  Once that issue was raised, it was  
8       rebutted with I believe ample evidence relying on their own  
9       press release, a reasonable interpretation of that.  FTD was  
10      assumed, appears to be assumed.  We're criticized in not  
11      knowing all the evidence filed in the complaint.  We don't  
12      know all of the evidence standing here today.  They have yet  
13      to produce the acquisition documents that outlined what the  
14      liabilities were that United Online assumed for FTD.

15              Again, we pled it as at least implied assumption  
16      of liability.  For all we know, there may be a clause in  
17      that acquisition document that says United Online assumes  
18      all liability for intellectual property infringement  
19      violations, or that it doesn't.  We don't know.  We don't  
20      have that document even at this day.

21              THE COURT:   Now, if this doesn't, end of story?

22              MR. BOTTS:   It all depends on the rest of it.  
23      What is FTD?  They seem to say they acquired FTD.  They paid  
24      a stock transfer.  They paid money for it.  They acquired  
25      their liability.  They were giddy about assuming the ever

1 popular website. And this case is all about the website.  
2 The website was what they were after because it drew in so  
3 much business. It drew in so much business because of the  
4 JPEG images it was able to generate because they were  
5 compressed under the patent.

6 So this website is very crucial to the deal. It  
7 seems to be the point of acquiring the website, and it is  
8 at the core of our litigation. So I don't know what they  
9 acquired. I guess the biggest issue is did FTD continue to  
10 be an independent corporation? Are they the proper party to  
11 be sued? We haven't heard that yet.

12 THE COURT: Well, you have alleged that they  
13 were a subsidiary.

14 MR. BOTTS: Well, that is the best we can make  
15 of it. Now they're saying they weren't a subsidiary because  
16 they have been spun off and now we should go chase the  
17 spin-off, as I understand their argument.

18 Although they say we should have known at the  
19 time we filed this suit the status of all the corporations,  
20 again, as I stand here more, I'm even more confused than  
21 when we filed it because we had a corporation that appeared  
22 to be a proper party. Then there was the allegation that it  
23 was not a proper party, that it disappeared as far as United  
24 Online was concerned. We proved that United Online assumed  
25 the liability or argued based on proof that they assumed the

1 liability under two theories. They've come in now and say,  
2 no, we didn't assume the liability and, in addition, it's  
3 somewhere else. Go chase it somewhere else.

4 We don't know from FTD what are they. At this  
5 point, we still don't know what they are or even the fact  
6 they were spun off where they are. We believe that it is  
7 reasonable to argue at this point based on what we know that  
8 United Online assumed, either implicitly or expressly,  
9 assumed liability based on what we knew about the agreement,  
10 and I would think they would have produced the agreement by  
11 now, or that it was a de facto merger based on what we know  
12 about the merger itself. From that point on, what FTD,  
13 whether it is spun off or not, we believe that United Online  
14 assumed the liability for what FTD had done in 2007.

15 Now, if there is an agreement for the spin-off  
16 of FTD, where was the liability assigned? This was after  
17 the lawsuit was filed. In this spin-off, does this  
18 assignment of FTD say, yes, we assume liability for  
19 intellectual property infringement during the time 2007 as  
20 may be alleged by Princeton Digital, or was that liability  
21 retained by United Online when it spun off FTD?

22 Again, it's not that we should have known  
23 when we filed this lawsuit. We still don't know now. As  
24 this point, if the issue is really the status of FTD upon  
25 acquisition by United Online and upon spin-off by United

1 Online, we would ask for limited reasonable discovery in  
2 order to find these very documents that should have answered  
3 that question. And the parties would, of course, be  
4 realigned appropriately according to the evidence. Right  
5 now, we're working reasonably on the best evidence we have.

6 THE COURT: So what would be wrong with  
7 alternatively getting rid of United Online and litigating  
8 against FTD, and if you find, in the course of that case,  
9 FTD raises a defense we don't have this liability, then you  
10 would make your showing try to bring United Online back in?

11 MR. BOTTS: FTD should be here today, and we  
12 haven't heard from them. I'd like to hear from FTD. If we  
13 can find the liability and FTD says, yes, it's us, then I  
14 think it's proper for this case to go forward. If FTD says,  
15 no, it's not us, it's United Online, then I think we still  
16 have the same issue. We've got to resolve liability.

17 But in the meantime, I don't think it's  
18 appropriate. I think it's premature at this time to let  
19 United Online out with so many issues about their assumption  
20 of liability when they acquired FTD and in the face of  
21 reasonable facts to establish that it was at least implied  
22 assumption of liability and/or de facto merger.

23 THE COURT: All right. Is there anything else?

24 MR. BOTTS: Nothing Your Honor.

25 THE COURT: Rebuttal.

1 MR. CIARDULLO: So just to some of the final  
2 points being made there.

3 To be clear, FTD has answered and will be  
4 defending and litigating this action. I have to look at  
5 FTD's answer again, but I'm told by counsel who checked that  
6 it doesn't have any affirmative defense in there that some  
7 other party is liable. There is a party here to be sued,  
8 and it always was a separate company and now is a separate  
9 company still. So I don't think that this is really a  
10 successor liability situation for the reasons I said before.

11 I think that the approach that Your Honor just  
12 suggested of essentially a dismissal without prejudice makes  
13 sense. United Online should not have to incur the expense  
14 and effort on top of what it already has to be litigating in  
15 this case. And if facts are developed that somehow show  
16 that it should be involved, they could always be added later.

17 But FTD has answered and a defendant. They are  
18 a party here to be sued. They have the website. They  
19 always had the website. United Online's involvement in this  
20 is really on the fringes.

21 And just to the merits on the motion to amend,  
22 the bottom line as I was citing those cases before is that  
23 the de facto merger doctrine gets it. The transferor  
24 company has to cease to exist and result in a situation  
25 where there is sort of relief can't be obtained against it



1 so you have to go against the transferee company. But the  
2 amended complaint expressly says that you have, it was a  
3 separate subsidiary.

4 So I think that just on the merits of that, this  
5 does seem to just all go down to a company that may have  
6 been a subsidiary for a while and now is separate and always  
7 was separate. So I would respectfully submit that dismissal  
8 with prejudice -- without prejudice. And if the facts were  
9 to show, which I don't think that they do, I don't think  
10 United Online should be added back in, but we shouldn't have  
11 additional expense to continue to litigate this after all  
12 the litigation we have had here with all these motions and  
13 briefing.

14 THE COURT: All right. Thank you. I'll ask my  
15 Delaware counsel, is it true FTD is not here? Nobody is  
16 here for FTD; correct?

17 MS. FARNAN: Your Honor, we also represent FTD  
18 Group Inc.

19 THE COURT: You do.

20 MS. FARNAN: And we, on their behalf, filed an  
21 answer. So that is the other defendant.

22 THE COURT: Okay.

23 MS. FARNAN: We are appearing today on behalf of  
24 United Online referring to the motions.

25 THE COURT: But are you here on behalf of FTD as

1 well?

2 MS. FARNAN: Yes, Your Honor.

3 THE COURT: Are both of you here on behalf of  
4 FTD?

5 MR. CIARDULLO: Yes.

6 THE COURT: Okay. Since I heard FTD is not  
7 here, I mistakenly thought that FTD is not here. So is  
8 there anything you want to add on behalf of FTD since it was  
9 alleged you are not here?

10 MS. FARNAN: No, Your Honor. I think what  
11 Mr. Ciardullo just said is that since we have answered the  
12 complaint, we're not here to defend.

13 THE COURT: And there has been no assertion of  
14 an affirmative defense that FTD is not liable?

15 MS. FARNAN: Your Honor, I did review the answer  
16 as we're sitting here. I don't see one, and I certainly  
17 don't recall that. I think the notion is the FTD Group is a  
18 proper party.

19 THE COURT: Okay. Thank you. Is there anything  
20 further you want to add, Mr. Botts?

21 MR. BOTTS: No. I would like to clarify. I  
22 didn't know that FTD was being represented; and we are  
23 attempting to get this case and the parties correct. If FTD  
24 is coming forward and saying they are responsible, they will  
25 stand responsible for the potential liability for patent

1 infringement in 2007, as pled, then I don't believe there is  
2 a need for United Online to be in this case.

3 We would consent to have them dismissed without  
4 prejudice, again because we don't know where these documents  
5 are going to lead us and I'm afraid of additional defenses  
6 being put forward related to the acquisition and then spin-off  
7 of FTD just because the evidence is so strong that they were  
8 actually involved. But if I have a good defendant who is  
9 going to stand for it, I'm willing to move forward with that  
10 clarification.

11 THE COURT: Ms. Farnan, and you all can think  
12 about this for a moment if you want, but are you going as  
13 far as Mr. Botts is asking or is there some need to meet and  
14 confer on this or have you already said what you think he is  
15 asking for? This is to either of you.

16 MR. CIARDULLO: Your Honor, I believe that the  
17 strategy of the motion to dismiss without prejudice, FTD  
18 answering and standing to defend is entirely appropriate.

19 THE COURT: All right. So is there anything you  
20 heard from Mr. Botts saying what he needs that you disagree  
21 with?

22 MR. CIARDULLO: I don't think so, no.

23 THE COURT: All right. Mr. Botts, are you  
24 satisfied with that?

25 MR. BOTTS: Yes, Your Honor.

1 THE COURT: Okay. Well, we'll take a short  
2 recess, and I'll come back and give you my rulings on the  
3 motions.

4 (Brief recess taken.)

5 \* \* \*

6 (Proceedings reconvened after recess.)

7 THE COURT: Have a seat.

8 We're ready to rule on the pending motions in  
9 the two cases. So I'll do it in the reverse order of how  
10 the cases were argued because it seemed to me that in the  
11 second case, by the time we were done with the argument,  
12 there really was nothing to argue about and that things are  
13 basically agreed.

14 To put that into specific terms, in the matter  
15 versus FTD and United Online, which is our 13-518, there is  
16 actually three pending motions.

17 First, we have defendants' motion to dismiss the  
18 original complaint. That's our D.I. No. 8.

19 That motion is denied as moot in light of the  
20 subsequent filing of the amended complaint by the plaintiff.

21 Next, we have pending defendant United Online's  
22 motion to dismiss that amended complaint. That is D.I. 15.

23 I'm going to grant that motion, meaning that  
24 United Online is dismissed, but this dismissal is without  
25 prejudice to the plaintiff subsequently requesting to add

1 United Online back should the plaintiff develop evidence  
2 that any liability for the alleged infringement is with  
3 United Online and not with the FTD defendant as the FTD  
4 defendant remains in the case, in fact has answered the  
5 complaint and has represented today that if there is  
6 liability for the alleged infringement, it rests with the  
7 FTD entity. Then,

8 Finally, in 13-518, there is plaintiff's motion  
9 to amend, D.I. 18.

10 That is denied as moot in light of what the  
11 parties appear to have agreed to, in any event what the  
12 Court has just ordered, with respect to United Online  
13 status. That is specifically dismissed but pursuant to the  
14 terms already explained.

15 Before I move on to the other case, are there  
16 any questions about what the rulings are in the FTD, United  
17 Online matter? First, the defendant.

18 MR. CIARDULLO: No, Your Honor.

19 THE COURT: Okay. And Mr. Botts.

20 MR. BOTTS: I would just ask, Your Honor, would  
21 you prefer plaintiff to submit a corrected complaint with  
22 United Online?

23 THE COURT: I think it would be helpful for the  
24 record to have a new filing. Is there any opposition to that?

25 MR. CIARDULLO: I'm just trying to think. I

1       suppose we would like to see a copy of it first.

2               THE COURT: All right. Well, you all work  
3 together on that. If you find you have a dispute on it,  
4 then let me know and I'll resolve it for you. We're not  
5 trying to increase or deteriorate anybody's rights. We just  
6 want to have a nice clean record as to what is in the case  
7 and what isn't. If you find you have any trouble with that,  
8 let me know.

9               MR. BOTTS: (Nodding yes.)

10              THE COURT: All right. So then turning back to  
11 where we already started, in the matter Princeton Digital  
12 versus Alticor, this is 13-512, we also have three pending  
13 motions in that case. Let me go through them one by one.

14              First, we have defendants' motion to dismiss for  
15 improper joinder. That's back at D.I. 12, still pending.

16              I'm denying that motion has moot as the issues  
17 that it raises that are still ripe are teed up in the other  
18 pending motions and really in the pending motion to amend.

19              Let me talk a little bit about plaintiff's  
20 motion to amend. That is our D.I. No. 28. I'm going to  
21 grant that to the extent first that it is unopposed and add  
22 the Quixtar defendant.

23              I'm also going to grant it to the extent that  
24 plaintiff may add the infringement allegations against the  
25 website [www.alticor.com](http://www.alticor.com). In the Court's view, this is

1     neither a new allegation, nor an untimely, nor unduly  
2     prejudicial or, for that matter, futile allegation so I see  
3     no reason not to allow the plaintiff to proceed against the  
4     Alticor.com website.

5             I agree with the plaintiff that in context, what  
6     this is is providing greater specificity and additional notice  
7     to the defendant as the prior allegation of infringement was  
8     sufficient to allege infringement and would not, itself, be  
9     subject to dismissal. Providing the greater specificity under  
10    the circumstances I think is perfectly appropriate, so the  
11    motion for leave to amend is granted to that extent.

12            However, with respect to the request to add  
13    Amway International Inc. as a defendant, the motion to amend  
14    is denied but without prejudice to renew in the Western  
15    District of Michigan because I'm going to be transferring  
16    the case there.

17            Why do I deny it at this point? Well, at this  
18    point, in front of me, the plaintiff has shown no reason to  
19    add this defendant, Amway International Inc., as a defendant.  
20    The defendant represents and has provided some evidence that  
21    Amway International Inc. is primarily a holding company and  
22    is a child or grandchild of the operating defendant which is  
23    the parent or grandparent of Alticor -- that is, Alticor  
24    Inc. is the parent or grandparent.

25            So I see no reason to add Amway International

1 Inc. at this point, and I'm just not persuaded at this time  
2 under the circumstances that I should grant the alternative  
3 request of allowing further discovery, again, as I am going  
4 to be transferring this case to the Western District of  
5 Michigan, and this battle over whether Amway International  
6 Inc. should be added can be fought out there.

7 That takes me finally to defendants' motion to  
8 transfer, D.I. 21, which I indicated is granted.

9 There is really only one reason in my view to  
10 even think about keeping this case here in the District of  
11 Delaware, and that is because there are 32 other related  
12 cases brought by the plaintiff that are pending not just in  
13 this district but in front of me.

14 Having considered that factor and given it a  
15 lot of thought, in light of all of the private and public  
16 interests, including those set out in the *Jumara* decision,  
17 but I'm not limited to those, and recognizing that the  
18 burden is on the defendant to show that the overall mix of  
19 factors favors transfer, I conclude that the defendant has  
20 met that burden because, again, the only reason to keep the  
21 case here is that I will have to deal with, in some respect,  
22 these other 32 related cases; but at this point, I have not  
23 been required to do anything in those cases that has required  
24 me to learn the technology to this point.

25 In this case, the period of infringement is a very



1 small period. It is a historical period, not ongoing, back in  
2 2007, approximately 8 months. In this case, notably, Delaware  
3 is not the home turf for the plaintiff, plaintiff is not a  
4 Delaware entity, and I have no Delaware entities on the  
5 defendants' side at this point in this case.

6 So the existence of the many related cases here  
7 in this District does provide a legitimate and rational  
8 reason to keep this case, No. 33, here in Delaware as well.  
9 Overall, it's just not enough of a reason given all the  
10 other factors to keep the case here. It's not a decision  
11 that under the circumstances is entitled to great deference  
12 or great weight. Every other one of the factors either  
13 favors transfer or is neutral.

14 So when I weigh all that together, with  
15 apologies perhaps to a Judge in the Western District of  
16 Michigan who may be proceeding and learning this technology  
17 just as I am, I think that is the conclusion the law compels  
18 me to make.

19 I should add to that the nature of the plaintiff  
20 as essentially existing to assert patents, I think it is fair  
21 they would have contemplated that they couldn't necessarily  
22 sue everybody and keep all those cases in one District.  
23 Some cases that are at least somewhat related are pending  
24 in at least one other court in New York. Those cases were  
25 originally I am told filed in Texas. They may have in part

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1 || been transferred to California.

2                   So while my decision today may marginally  
3       increase the burden on the federal judiciary overall and, if  
4       so, that is regrettable, I do think that is the only thing  
5       that would cause me to think about keeping this case here.  
6       And when I weigh it all together, I decided it is not enough  
7       to cause me to keep it here recognizing the burden is on the  
8       defendant. I find the defendant has met that burden.

9                   So we'll get an order out that memorializes  
10       those rulings. But are there any questions on the Alticor  
11       case from defendants?

12 MS. MILLER: No, Your Honor. Thank you.

13 THE COURT: From plaintiff?

14 MR. BOTTS: No, Your Honor.

15 THE COURT: Is there anything else while we're  
16 here? No?

17 MS. MILLER: No, Your Honor.

18 MR. CIARDULLO: No, Your Honor.

19 THE COURT: All right. Thank you all very much.

20 (Hearing ends at 11:27 a.m.)

21

22 I hereby certify the foregoing is a true and accurate transcript from my stenographic notes in the proceeding.

24                               /s/ Brian P. Gaffigan  
                                 Official Court Reporter  
 25                               U.S. District Court